References

California Constitution Article 13A
SEC. 2. (a)
The "full cash value" means the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value" or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.

Property Tax Rule: 463 (b)3
Any physical alteration of any improvement which converts the improvement or any portion thereof to the substantial equivalent of a new structure or portion thereof or changes the way in which the portion of the structure that had been altered is used, e.g., physical alterations to an old structure to make it the substantial equivalent of a new building without any change in the way it is used or alterations to a warehouse that makes it usable as a retail store or a restaurant. Only, the value, not necessarily the cost, of the alteration shall be added to the appropriately indexed base year value of the pre-existing structure.

California Revenue and Taxation Code Sections: 70, 71, 72, 110.
Available at
http://www.leginfo.ca.gov/.html/rtc_table_of_contents.html

Property Tax Rules: 2, 4, 463 (d)
Available at
http://www.boe.ca.gov/proptaxes/ptrules.htm

Mission Statement

The mission of the Santa Clara County Assessor's Office is to produce an annual assessment roll including all assessable property in accordance with legal mandates in a timely, accurate, and efficient manner; and provide current assessment-related information to the public and to governmental agencies in a timely and responsive way.

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NEW CONSTRUCTION AND NEW PROPERTY TAXES

What Effect Does New Construction, Altering an Existing Building or Changing the Use of a Property Have on Property Taxes?

Lawrence E. Stone
Assessor

"New construction" is one of the most common reasons a property is reassessed and the assessed value increased beyond the Proposition 13 protected 2% annual increase.

Normally "new construction" is thought of as building a new structure, or adding on to an existing structure. Under California property tax law, "new construction" can also mean renovating a structure to change its use, rehabilitating a structure to a "like new" condition, or even removing a structure. However, not every building permit for new construction results in reassessment. In general the Assessor's office processes thousands of building permits annually, yet typically less than half result in a new, higher assessments.

This brochure is designed to help property owners and taxpayers understand when new construction results in a reassessment.

Generally, value is added for new construction under the following circumstances:

1. New building(s) constructed on vacant land.
2. Additional square footage added to an existing building.
3. Additional buildings or amenities added to a property. For example, a garage, swimming pool or bathroom.
4. Physical alteration (rehabilitation) converting a building or any portion thereof, to the substantial equivalent of a new structure, <u>or</u> changing the manner in which a building is used.

How and when will "new construction" be assessed?

In estimating new construction, only the value of the improvement being added is considered. That is, if a new building is constructed on vacant land, the land will retain its existing indexed, base year assessed value[1]. The assessed value of the new construction will be added to the base year land value. If an addition to a structure changes its size, for example, increasing the size of a single family residence from 1,200 square feet to 2,000 square feet, only the market value[2] of the additional 800 square feet is added to the assessed value. The indexed base year assessed value of the land and existing structure(s) remain unchanged.

The assessed value is determined as of the **date of completion** of construction. If the construction is ongoing on the lien date[3] (January 1), an estimate of the value of the partially complete construction is

3 The time when taxes for any fiscal year become a lien on property; and the time as of which property is valued for tax purposes. The lien date for California property is 12:01 a.m. on January 1 (effective January 1, 1997) preceding the fiscal year for which the taxes are collected. The lien date for prior years was March 1.

4 The Assessor will look at the project and determine whether structural components such as roof structure, exterior walls, floor structure, foundations, substantial portions of the plumbing, electrical and/or HVAC (heating, ventilating or air conditioner) systems are being replaced.

made and entered on the next assessment roll. When construction is complete, the base year assessed value is determined and a supplemental assessment is issued for the difference between the value as of the date construction is completed, and the value that existed on the assessment roll.

The assessed value is based upon the market value resulting from the new construction. The Assessor may use the

Sales Comparison Approach, the Cost Approach, and in case of income producing properties, the Income Approach to value the new construction.

Will the contractor's costs, or in the case of **owner-built new construction**, the owner's actual cost, be considered in the assessment? While these costs are considered, the Assessor is obligated by California State Constitution to add the **market value** of the new construction**.** When the Sales Comparison Approach is employed, an appraisal of the land and the improvements is done as of the date of completion to determine the value of the new construction.

The Cost Approach is often employed by the Assessor to appraise new construction. It is important to note that proper application of the cost approach considers all the costs incurred in the course of construction. These "Full Economic Costs" include labor and materials, permit fees and contractor's overhead and profit. In addition, there are indirect costs such as developer's administration expense, professional fees, construction financing, insurance, and entrepreneurial profit.

New Construction associated with income producing properties may be assessed using the Income Approach. Here the methodology is similar to the Sales Comparison Approach because the market value of the total property is determined based on the income which the subject property could generate. The market value of the land is then deducted to leave a residual market value of the improvements.

In general, the difference in the amount of money the property would have sold for if offered for sale as it existed immediately prior to the new construction, and the amount it would sell for on the open market, immediately after the completion of construction, is the best indicator of market value.

What if I am just repairing my property?

Routine repairs necessitated by normal wear and tear, such as replacing a water heater, carpet or roofing are not considered new construction, and are not subject to revaluation for assessment purposes.

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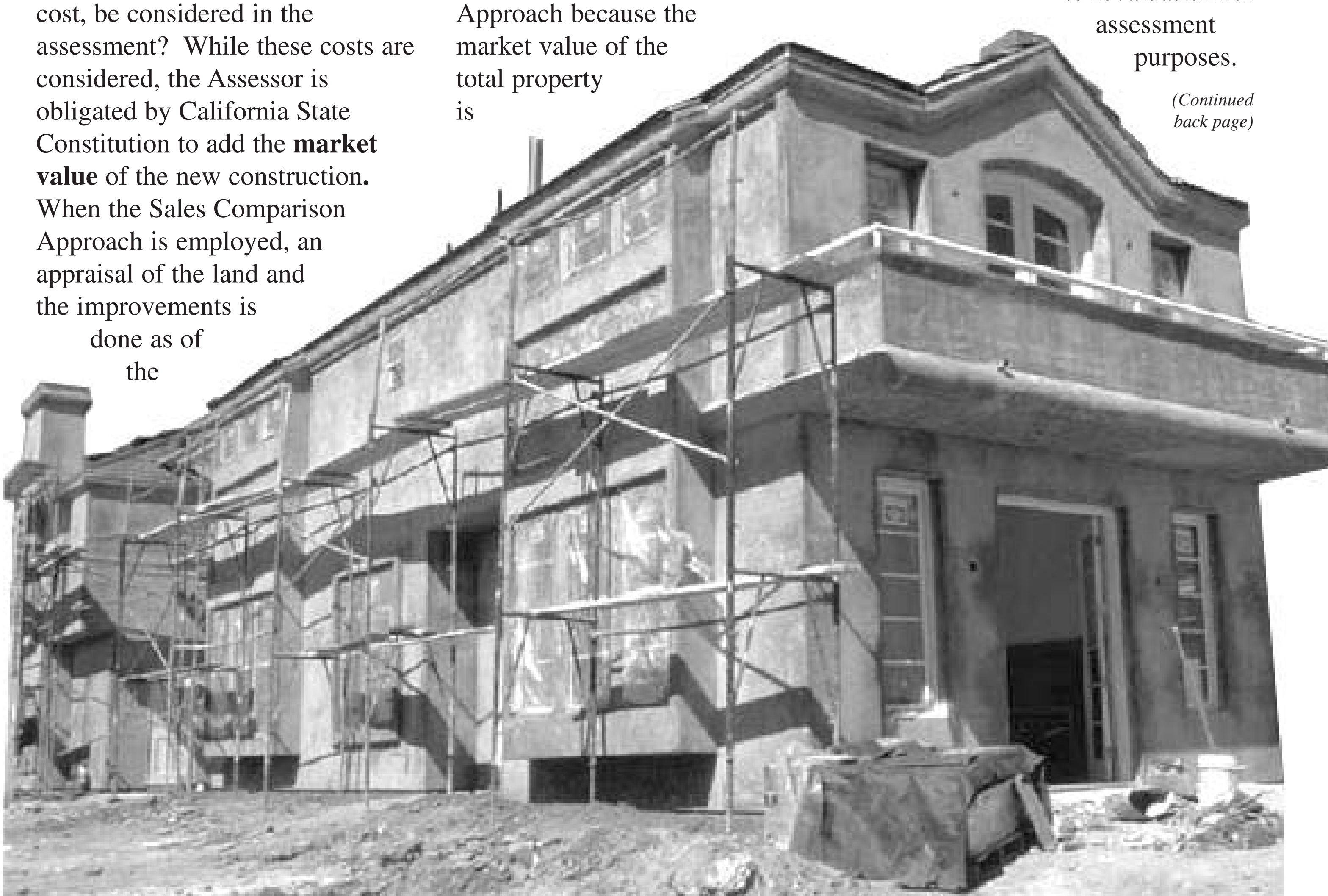

What if I am repairing major damage suffered in a calamity?

A property owner who has suffered a loss due to a misfortune or calamity, such as fire, flood or earthquake, may be entitled to property tax relief. For complete eligibility details please call the Assessor Office at 299-5300 to request a Calamity Claim form. Forms and more information is also available on the Assessor's website at www.scc-assessor.org.

What if I am just remodeling?

Remodeling that does not involve adding to the size of the structure or to the amenities provided within the structure (such as adding a bathroom) is generally not considered new construction and is not subject to reassessment. The exception is those situations where the remodeling is so extensive as to constitute the "substantial equivalent" of a new structure. If a remodeling project is extensive[4] the property owner is encouraged to contact the Assessor's staff, in advance, to obtain a better idea of how the project will be treated for assessment purposes.

How does the Assessor know that new construction has occurred?

Santa Clara County, and all 15 cities within the county, are required to provide the Assessor with copies of building permits.

The Assessor is by law required to value all new construction, whether or not a building permit has been issued. Discovery of new construction occurs in a variety of ways such as information volunteered by the public, personal observation of Assessor staff performing routine field checks, or reported at the time a property transfers ownership. Upon discovery, the Assessor is required to determine or estimate the date of completion of construction, and the value as of the completion date, and to correct the assessment roll for up to four years from the date of discovery.

What if I plan to live in the house I am building?

A homeowners exemption is available for property owned and occupied by the owner as the principal place of residence. Information about this exemption is automatically mailed to new property owners several months after acquisition. For additional information please consult the Assessor's website at www.scc-assessor.org or call (408) 299-6460.

What if I don't agree with the assessed value placed on the new construction?

After receipt of the notice of assessment, you may request an informal review of the assessment from the Assessor's Office. If you believe the review does not result in a satisfactory conclusion, you may pursue an assessment appeal. Any assessment appeal must be filed within the time specified on the notice.

The assessment appeal process is available for disagreements regarding the enrolled value of the property.

An independent Assessment Appeals Board, appointed by the Board of Supervisors, hears all appeals and renders a decision. Information concerning the assessment appeals process and deadlines in which an appeal must be filed, are included with the value notification(s) sent to the property owner. Information regarding assessment appeals is available from the Clerk of the Board at 299-5001 or at www.sccgov.org.

1 A base year value is established each time there is a change in ownership or completion of construction, which, in subsequent years is modified only by applying the mandated inflation factor, not to exceed 2%. A property with multiple completion of construction dates, or multiple partial interest transfers, will have a separate indexed base year value for each component. The total assessment is the sum of the components and is the basis for calculation of the taxes.

2 There are three nationally accepted valuation/appraisal techniques to determine fair market value: (1) Sales Comparison Approach, (2) Income Approach (usually appropriate for income producing properties) and (3) Cost Approach. While the Cost Approach is a valid and useful technique for determining value of some properties, the final determination of assessed value will be based on the amount the general public would pay for the work, including a market based profit. The application of the cost approach to determine assessed value is the least preferred method of valuation and is only appropriate for special use properties, or when available market information is insufficient to render an accurate application of the previous two approaches to value. For more information on these three approaches to value, please see the references below.